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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 001434

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SUBJECT: TAIWAN-PARAGUAY TIES APPEAR STABLE, BUT UNDERSCORE  
FRAGILITY OF "DIPLOMATIC TRUCE"

REF: TAIPEI 1429

Classified By: AIT Director Stephen M. Young, Reasons: 1.4 (b/d)

¶1. (C) Summary: While the facts are murky, indications and perception in Taiwan are that the PRC has thus far discouraged Paraguay's efforts to establish diplomatic ties with China in the interest of reducing cross-Straits tensions.

More clear is that Paraguay is dissatisfied with strings currently attached to an aid package offered by Taiwan. For now, Taiwan's Latin American alliances seem stable. While Paraguay may not be the only Taiwan ally in the region contemplating switching diplomatic allegiance to China, the cold shoulder Asuncion appears to have received from Beijing may discourage other Taiwan allies from following the same path. Nevertheless, the situation underscores the fragility of the unilateral "diplomatic truce" declared by Taiwan President Ma Ying-jeou. With the Ma government facing plummeting approval ratings, a lagging economy and criticism even from within the ruling KMT party, the loss of a diplomatic ally would cast doubt on the President's ambitious plans to improve ties with the PRC. Thus much is riding on China's responding positively to Ma's overtures on "international space" and the "diplomatic truce." End summary.

Paraguay: Deal or No Deal for \$71 million  
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¶2. (C) While Paraguay-Taiwan diplomatic ties are stable for the moment, there continues to be pressure within the governing coalition in Asuncion to recognize China instead of Taiwan, Paraguay's Ambassador to Taiwan Ramon Diaz Pereira told poloff during a September 17 meeting. While campaigning for office, Paraguay President Lugo hinted publically of plans to establish diplomatic ties with China. At his August inauguration, however, Lugo reassured visiting President Ma that his country would maintain relations with Taiwan. While Lugo had, indeed, made this "promise," Pereira explained, the Paraguayan President remains interested in strengthening ties with China. China now is Paraguay's second-largest trading partner, and Pereira suggested his country may set up a commercial office in China. He expressed frustration with

Taiwan's Ministry of Foreign Affairs (MOFA) comments to the press in early September, suggesting that Paraguay offered to recognize the PRC in exchange for USD 71 million in assistance. Pereira lamented MOFA's press remarks and said its failure to respond to his requests to discuss the issue "did not help" Paraguay-Taiwan relations. Pereira cautioned that he would "set the record straight publically" if he continued to get the cold shoulder from Foreign Minister Francisco Ou. That he has not done so suggests FM Ou reached out to him and Paraguay-Taiwan ties are stable for now.

13. (C) The details of the aid package at the heart of the episode are sketchy. According to Pereira, Paraguay's and Taiwan's former leaders reached a deal last fall in which Taiwan would provide Paraguay with USD 71 million in aid, a proposal subsequently confirmed in writing last December by Taiwan's Ambassador to Paraguay. After the Paraguayan Senate recently approved the deal, Taiwan's MOFA denied its existence, saying it would not allocate foreign aid without a detailed proposal on how funds would be used. Pereira suggested such a proposal was never provided, noting that Paraguay was a poor country that needed money for "various projects." He also appeared frustrated with reports suggesting Paraguay attempted to play diplomatic roulette with both China and Taiwan and would not confirm that Paraguay tried to establish ties with the PRC.

14. (C) In a September 24 meeting with polooffs, Tamkung University Professor Kung Kuo-wei reaffirmed the outlines of diplomatic intrigues and said it was clear that Paraguay had,

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indeed, made an offer to China. While the timing of Paraguay's overture to China is uncertain (it could have occurred anytime after Paraguay President Lugo was elected last April), China rejected Paraguay's bid. China would not reap much benefit from winning over small allies such as Paraguay and would, for now, continue to fend off such offers in recognition of President Ma's efforts to reduce cross-Strait tensions. Like Pereira, Kung deemed Paraguay-Taiwan ties stable for the time being - a question in which he has a strong personal stake. Kung, one of a small fraternity of scholars who specialize in Taiwan-Paraguay relations, plans to take a break from academia and serve a three-year stint in Taiwan's Embassy in Asuncion. When the Taiwan government asked him to move to Paraguay earlier this year, he demurred, uncertain that ties would remain intact. Now, though, he was confident that Taiwan's embassy would remain open.

What About The Rest of Latin America?

15. (C) Paraguay probably is not the only Latin American ally of Taiwan considering switching sides, Kung surmised. While Panama was likely safely in Taipei's camp, Kung pointed to Haiti's and Honduras' strong interests in China and suggested they would be keen on switching ties. For now, though, he predicted, China would give these efforts the cold shoulder. MOFA Deputy Director General for Latin America and the Caribbean Diego Chou was more upbeat, telling POL Chief September 23 he was optimistic Taiwan would not lose any of its Latin American allies. Asked if a possible switch by the Vatican would encourage catholic Latin American countries to follow suit, Chou said religion would not necessarily play a decisive role in Latin American countries' decisions. In any event, in a farewell call by Taiwan's departing Ambassador to the Holy See, Pope Benedict XVI had said Vatican-Taiwan relations were solid. The new Vatican charge to Taipei echoed these sentiments to the Director in September, indicating a breakthrough with Beijing on bishop appointments seems far away.

Comment: Stakes are High for Cross-Strait Ties

¶6. (C) Speculation about Paraguay shifting diplomatic allegiance illustrates the risks involved in Taiwan President Ma Ying-jeou's effort to seize the initiative in relations with China and reduce cross-Straits tensions. His unilateral call for a "diplomatic truce" - in which Taiwan and China would end their efforts to poach each other's diplomatic allies - offers the prospect of ending the two sides' zero-sum competition throughout the world. Because Ma did not vet this proposal with Beijing and has been vague about its exact meaning, success requires China - not to mention the countries in question, who undoubtedly feel they ought to have a say in the matter - to continue to play a game whose rules are not entirely clear. For now, Ma is counting on China understanding the need to support his approach, including by fending off would-be diplomatic suitors, to prevent a return to the more confrontational approach of his predecessor. Meanwhile, the Taiwan MOFA's press comments may have been aimed at warning Taipei's allies against attempts to switch ties but, in the long run, irritating allies is not the best way to maintain ties. As with Taiwan's bid for WHO observership (reftel), a setback for Ma could, indeed, make it politically impossible to continue to pursue rapprochement. If Taiwan and China cannot institutionalize progress on cross-Straits political issues, the two sides may find themselves on increasingly shaky ground. It is unclear to interlocutors here whether Beijing fully understands the pressure Ma is under in democratic Taiwan politics to demonstrate real results in his cross-Straits gambit. These sources say failure to obtain an adequate response from China

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could play into domestic politics and force Ma to adopt a less accommodating stance on issues like sovereignty and his current unilateral "diplomatic truce."  
YOUNG